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Leopold Center for Sustainable Agriculture

1-2007

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Abstract
This report, submitted to the Pork Niche Market Working Group, summarizes the results from a research project that explored collaboration opportunities among companies marketing niche pork products. The report identifies five possible areas of collaboration.

Keywords
Niche meat dairy and poultry, Pork Niche Market Working Group

Disciplines
Agriculture | Animal Sciences | Entrepreneurial and Small Business Operations | Meat Science

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Submitted to the
Pork Niche Market Working Group

By Ann Wilkinson
January, 2007

Funded in part by Leopold Center for
Sustainable Agriculture and matching dollars
from SYSCO Corporation.

Summary

In summer of 2006, we undertook a research project funded by the Pork Niche Market Working Group to explore opportunities for possible collaboration among companies marketing niche pork products. Through this research, we have identified five areas of potential collaboration among these groups including carcass utilization; less-than-a-load (LTL) transportation; sourcing and procurement; and market intelligence/competitor information; and coordinated market access. This document reviews our research methodology and findings. Further, we explore possible methods of enhancing collaborative efforts among these groups.

Background

The pork industry has experienced dramatic consolidation at the farm level. In 1950, over 2 million U.S. farmers sold hogs with average sales of 31 head per farm per year. By 2004, the number of farms had fallen to around 75,000 operations. The production from smaller farms has declined with a little more than 20% of the hogs raised annually on farms with 2,000 hogs or less.

Tremendous consolidation in the pork industry at the packer level has occurred during the past 30 years. A 2005 study by the University of Missouri indicated that 64% of pork processing was controlled by the four largest firms. In many geographic areas, pork producers have very limited market access with one or two choices to market their finishing swine. Concentration at the packer level has paralleled concentration at the farm level. Overtime, there has been a greater number of hogs produced on larger facilities.

This lack of competition results in lower prices paid and puts small and moderate size independent pork producers in a vulnerable position. Agriculture Economist Glenn Grimes, nationally known for his projections of US pork trends and prices, has recently warned that chances of surviving economically are slim for smaller pork producers unless they are involved in a viable niche market.

In the face of continued consolidation at the packer and producer level, there has been some specific cases changes in these trends. In the last five years, several niche pork companies have emerged as vibrant marketers at the local, regional, and national level. These pork companies have been able to capture market share by producing and marketing highly differentiated pork products, including breed specific pork programs, natural pork programs, and companies that offer processed meat items with distinctive flavor and quality attributes.

In 2006, it is estimated that there are about 40 niche pork companies of various sizes operating domestically. These companies have each been able to survive by offering pork with unique characteristics, including:

1. Breed specific programs, including Berkshire, Duroc, and other heritage breeding programs that have superior and discernable meat quality characteristics compared to commodity pork products.

2. Pork programs with distinctive food safety programs, including those that raise hogs without use of antibiotics; those that prohibit animal by-products in the feed or prohibit use of pesticides; or those companies that offer improved food safety assurances through traceability programs.
3. Pork programs with socially responsible attributes, including pork raised on family farms, or those that adhere to environmentally friendly and low impact production techniques.

These niche pork companies have survived in the face of continuing industry consolidation at the packer level, as well as continued consolidation among retail and foodservice distribution. In January, 2002, Practical Farmers of Iowa hosted the first Pork Niche Market Working Group to help these small niche marketers survive. Over the last five years, the group has offered an array of information and collaborative based services that, according to most participants, have been beneficial.

Collaboration Project

Shortly after the Pork Niche Market Working Group (PNMWG) was formed, they began exploring the areas of potential collaboration among these niche groups, with the goal that collaboration and coordination would lead to potentially open new market opportunities, reduce operating costs, or somehow aid in the survival of these emerging pork companies. This collaboration project was funded by the PNMWG.

Methodology

As part of this project, we first identified different niche pork companies that could be possible "collaborators", and possibly use the finding from this report. The niche pork companies identified where those that had some degree of producer leadership or ownership in the company, specifically we attempted to explore areas of possible collaboration among farmer-led organizations.

Second, we identified areas of possible collaboration from an array of ideas that had been suggested at some time during the course of other PNMWG efforts, or had been identified by the niche pork companies.

Third, we interviewed leaders in each of the niche pork companies and identified the most plausible areas of collaboration. These interviews took place over the summer and early fall of 2006.

And lastly, we have ranked these identified areas and have offered some discussion about potential opportunities for collaboration and coordination within each of these areas.

Identification of Producer Led Companies

In the last thirty years, producer participation in the food chain has been declining. For over 50 years, the USDA has tracked the percentage of value that producers realize from the marketing and distribution of their agricultural products. The on-farm share of total value of livestock products has declined from 68 to 37 percent in 2005. Producer-led and owned companies are attempting to reverse this trend by affording their farmer-owners a greater percentage of total value of their products market. These producer-led companies participate more fully, and capture more value from processing, marketing, and distributing their products compared to producers that simply market their livestock at the farm gate.

As part of this research project, we interviewed participants in producer-led pork marketing companies. These companies included Niman Ranch, Vande Rose Farms, Eden Natural Farms, and Ozark Mountain Pork Cooperative. Over 14 different producer led companies were interviewed. These producer-led companies interviewed may not necessary have vertically integrated production and processing functions, but simply producer-led meat companies.

Interview Process

Management members of identified companies were interviewed, using an interview script. However, other information gleaned from the interviews, not necessarily contained in actual questions was included in the finding. The purpose of the interviews was to determine which collaborative efforts, from an array offered, would be the most useful or welcomed by each of the companies.

After the interviews were completed, we ranked the preferences of each company, and formulated a list of leading areas for collaboration. Ideas for furthering each of these collaborative areas are discussed.

Interview Questions

Participants were interviewed about seven overall areas that were identified in previous development work under taken by the Pork Niche Market Working Group. These overall topic areas were:

1. Sourcing and procurement issues.
    - Are there times when you have need for additional hogs to fill demand, or are there times when your group has hogs available?
    - Would you welcome referrals from interested producers, or leads on potential producers outside of your system?

2. Carcass utilization issues
    - Do you ever need additional meat from a particular cut to fill orders?
    - Are you ever long on an item, such as trim, that you would be interested in marketing through another niche company?
    - Do you have an interest in adding value to your offal products through cooperative marketing systems?

3. Coordinated transportation and logistics for finished goods.

   - Are there ever instances that you would be open to coordinating logistics? Do you feel like your rates are competitive with the industry?

4. Potential coordinated marketing efforts.
   - Are you interested in coordinating marketing activities? (i.e. sharing space at a trade show, doing a joint public relations splash with other niche companies)
   - Would you be interested in joint marketing of pork products with other producer-led companies in order to fill the needs of larger retailers, food service distributors or specialty export markets?

5. Product development needs.
   - What are your product development needs and do you see any possibilities for coordinated product development efforts?

6. Risk management, farm level and market level information.
   - Do you see any advantages or possibilities for sharing pricing information (at the farm, or market) for risk management purposes?

7. Market Intelligence.
   - Would you be open to receiving market intelligence about the overall meat industry, the natural/niche sector, or other information about companies that compete against niche marketers?

8. Coordinated education of consumers on key issues.
   - Do you think there is any value of coordinated marketing or public relations efforts to explain the attributes and benefits of niche pork participants?

9. Information on cost/structure of Third Party Verification Services.
   - Would you derive any benefit from an outside review of Third Party Verification Services available to producers?

10. Other possible opportunities not identified.
    - Are there other possibilities that we have not identified, that you think would warrant collaboration?

Ranking of Possibilities

The top five areas for collaboration, in order of preference, were:

1. Carcass utilization
2. Less-Than-a-Load (LTL) transportation
3. Sourcing and procurement
4. Market intelligence/competitor information.
5. Coordinated market access to larger markets such as export markets.

A discussion of possibilities for each of these areas follows.

Carcass Utilization Issues

About 60% of the companies surveyed expressed some interest in coordinating efforts to improve carcass utilization, or to sell unsold parts of their meat through alternative channels. Utilizing the pork trimmings, offal and other lower valued products are the greatest challenges of the companies interviewed.

Possibilities for improved utilization can come most easily from producer groups that are slaughtering at the same facility, and have easy access to facilitated exchange by not having to transport the product. Additionally, there seems to be some possibility of coordination between entities that have the same product specifications. Examples include breed specific pork programs such as Berkshire or those companies marketing pork from hogs raised without antibiotics.

One of the biggest obstacles to improving carcass utilization through coordinated efforts is easy exchange of information on available pork. Marketers are also somewhat reluctant to share confidential pricing and customer information.

Coordination may improve significantly by having more forums for "just the niche" companies, where the marketers can have an easy opportunity to interact and learn more about possibilities and opportunities. Electronic bulletin boards on secure internet websites may also be utilized for better coordination.

LTL Transportation Issues

Many of the smaller niche pork groups market smaller quantities of pork at time. Often times this product moves to major population centers on the east and west coasts, or larger metropolitan areas in the south. Some of these companies transport small quantities of pork to customers over 2,000 miles away. About 50% of the companies surveyed expressed some interest in coordinated trucking, or learning about trucking possibilities.

Coordination would be more likely if the loads originate from a single geographical location, or if they are destined for the same end location. There maybe possibilities to coordinate transportation with other specialty protein products, for example organic beef, that are moving from a nearby geographical area.

Sourcing and Procurement Issues

About 45% of the companies surveyed expressed interest in exploring collaboration with respect to sourcing hogs and procurement issues on the live hog side. Often, smaller production companies do not have product demand match with hog supplies. There maybe times of the year, when these companies have excess hogs that they can market. Conversely, there also maybe times where there is excess demand for specific types of niche pork, and when these companies are seeking pork. Some companies expressed interest in exploring possibilities of shared field staff to recruit qualifying producers, verify production standards and to organize procurement and transportation. This type of collaboration would work best for hogs destined for the same processing plant.

Market Intelligence, Competitor Information

Most participants in the niche pork industry have access to industry trade publications including *The Meatingplace, National Provisioner,* and *Food Business*. However, often times, these publications do not have timely information about activities of smaller scale companies.

Forty percent of the niche pork companies surveyed expressed a desire to see more market and industry intelligence that would be useful to them. Possible ideas include the creation of a "Monthly Update" which would be a compilation of prices from participating producer-led companies. This update would be in a simple, easy to read format such as *Cattle Fax* or the *Kiplinger Report*.

The respondents were not questioned about their willingness to pay for such a publication but the possibilities for this publication to be underwritten with ad support or industry sponsorship exists.

Coordinated Access to Larger Target Markets, Including Export Markets

Most of the producer-led companies interviewed stated that their marketing budget was limited and inadequate and expressed strong interest in coordinated marketing efforts. Most felt that coordinating marketing activities such as the sharing of space at a trade show, joint advertising and public relations, and cooperative in-store demonstrations would lead to a more effective and efficient use of their marketing dollar. Some of the companies expressed interest in developing a highly visible website directory and a coordinated e-commerce system. Many companies felt that they have missed opportunity to land larger retail and foodservice accounts because of their small production volume and are interested in examining the joint marketing of producer-led companies in order to fill those customer needs. Most of those interviewed felt that a coordinated effort among similar company types was of paramount importance for successful exportation of niche products.

Conclusion

The dramatic change in the business structure of the US pork industry has resulted in a highly concentration pork industry that allows limited access to independent producers. Niche pork marketing can be viable alternative for many hog producers. Because of their smaller size, producer-led niche pork companies face several challenges and barriers. Collaboration and coordination among these groups in areas such as marketing, price transparency, carcass utilization, transportation and procurement are keys to survival and business success. The findings of this study also indicate the willingness of producer-led pork niche companies to explore and participate in cooperative arrangements.

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